

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8112

BILL NUMBER: HB 1554

DATE PREPARED: Mar 5, 1999

BILL AMENDED: Mar 4, 1999

SUBJECT: Taxation and finance.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Abatement period:* This bill provides that property tax abatement deductions may be granted for any number of years less than or equal to ten years. (Current law limits the abatement deduction to three, six, or ten years for real property and five or ten years for personal property.)

Research & development abatement: The bill provides that certain research and development equipment is eligible for property tax abatement deductions. It allows the abatement deduction for research and development equipment only if the equipment is used in a research and development facility engaged in activities devoted directly and exclusively to experimental or laboratory research and development for new products, new uses of existing products, or improving or testing existing products.

Research & development income tax credit: The bill also provides that the research expense credit against gross income taxes, adjusted gross income taxes, and supplemental corporate net income taxes expires on December 31, 2002 (instead of December 31, 1999). The bill increases the maximum amount of the research expense credit from 5% to 6%.

Finance Authority: This bill expands the definition of what expenditures are covered under the Indiana Development Finance Authority law.

Tax Increment Financing: This bill requires that tax increment financing allocation provisions established after June 30, 1999, must expire within 30 years. It requires that tax increment financing allocation provisions established before July 1, 1999, must expire no later than the latest date that bonds outstanding on July 1, 1999, are scheduled to be retired.

Tax Abatements: The bill provides that the total property tax abatement deductions for residentially distressed areas in Center Township of Marion County may not exceed one-third of the assessed valuation of the residential property in the township.

Economic development income tax: This bill provides that if Clark County adopts an economic development income tax, the town of Clarksville may use the portion of tax revenues that it receives to provide grants to an employer meeting certain conditions for the retention of employees. It provides that the Clarksville town council shall review grant applications in the manner that the economic development for a growing economy (E.D.G.E.) board reviews applications for E.D.G.E. tax credits.

Effective Date: (Amended) January 1, 1999 (retroactive); Upon Passage; July 1, 1999.

Explanation of State Expenditures: (Revised) *Abatement period:* The State Tax Board processes the personal property abatement forms and certifies the amount of assessed value (AV) to be abated to the county auditor. The Tax Board would need to alter the computer programs that process these forms because of the option to grant abatements from one to ten years in duration. The Tax Board should be able to complete this task with current resources.

Research & development tax credit: The changes in the research development tax credit rate will increase the Department of Revenue's administrative expenses by a minimal amount.

Finance Authority: This bill would also allow the Indiana Development Finance Authority to act as the conduit issuer of bonds for a nonprofit organization that has its headquarters or a primary educational or exhibit facility located on state owned land. The NCAA has been identified as an organization that qualifies under this provision. The proceeds from the bond issues may be used to pay for real property and improvements, personal property, and non-capital costs to fund judgements, settlements, or non-recurring expenditures. These bond issues will not create any liability for the State of Indiana. Administrative costs for the Indiana Development Finance Authority are estimated at under \$5,000 and would be paid for with the Finance Authority's existing resources.

Explanation of State Revenues: *Research & development abatement:* The State levies a one cent tax rate on property for State Fair and State Forestry. Any change in the amount granted for abatements would change the amount received from this tax.

As explained below in Local Revenues, if there is an increase in development because of this proposal, the new property would, at some point, be placed on the tax rolls and the State Fair and State Forestry funds would receive increased revenues. If the investment would be made with or without the abatement then increased revenues to the State Fair and State Forestry funds would be foregone until the property is placed on the tax rolls.

(Revised) *Research & development tax credit:* This bill increases the research and development tax credit which is currently set at 5% of the eligible expenses to **6%** effective January 1, 1999. The bill also extends the expiration of this tax credit from December 31, 1999 to December 31, 2002. In FY 96 and FY 97 approximately \$9.2 M and \$15.3 M of tax credits were claimed respectively. Assuming a similar amount of tax credits are taken annually, the increase in the tax credit to 6% will result in an additional revenue loss of \$3.1 M annually beginning in FY 2000 until FY 2003. However with additional incentives created for research and development activity, this credit could increase by an indeterminable amount. This would affect revenue collections deposited in the General Fund and Property Tax Relief Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Abatement period:* Currently, real property may be abated for

3, 6, or 10 years and personal property may be abated for 5 or 10 years. The length of abatement, within the above constraints, is left up to the local designating body. This proposal would allow the local designating body to determine the number of years, from one to ten, that a real property or personal property ERA abatement may be granted. The bill also reduces the abatement percentages for the five and ten year abatements on personal property.

While giving the local designating bodies more options as to the length of the deduction might produce overall shorter abatement periods for new abatements, it could also encourage an increase in the number of abatements granted. This is because sometimes a designating body might be reluctant to allow a long abatement period for a small project. This provision allows a shorter, possibly more equitable, alternative. Therefore, it could be concluded that, overall, this provision may have a minimal effect on the total amount of tax shift due to ERAs.

Economic Development Income Tax: This bill provides that if Clark County adopts an economic development income tax (CEDIT), the town of Clarksville may use the portion of tax revenues that it receives to provide grants to an employer meeting certain conditions (namely Colgate-Palmolive) for the retention of employees. It provides that the Clarksville Town Council shall review grant applications in the manner that the Economic Development for a Growing Economy (EDGE) Board reviews applications for EDGE tax credits. The amount of EDGE credit allowed to a taxpayer is equal to a percentage (established by the EDGE Board) of the incremental income taxes withheld for employees filling newly created positions. Under current law, EDGE credits are only available when new jobs are created.

If the Clarksville Town Council feels that a CEDIT grant would assist in retaining jobs that the firm would otherwise relocate outside of Indiana, then credits could be awarded. It must also be shown, however, that disparities exist between the costs of production in Indiana and the alternate locations being considered. Without the CEDIT grant, it is possible that the entire operation could be moved outside of Indiana, resulting in a loss of both corporate and individual income tax revenue to the state (and property tax revenue to local governments). Under this proposal, the Clarksville Town Council would identify the number of positions retained and the corresponding income tax withholdings in determining the amount of the grant. Colgate-Palmolive currently employs more than 470 people in the town of Clarksville. According to a 1996 US Census estimate, the population of Clarksville is 19,749.

According to a representative of Colgate-Palmolive, the total annual payroll for the Clarksville operation is \$37 M. Under this bill, the Town Council could approve a grant amount up to 100% of income taxes withheld for all positions at the facility. The IDOC uses a 3.1% effective state income tax rate to estimate the amount of EDGE credits that would be granted. Based on the full \$37 M payroll, Colgate-Palmolive could receive approximately \$1,147,000 (\$37,000,000 multiplied by 3.1%) each taxable year for no more than ten years (this year limitation is normally decided on by the EDGE Board).

Under current law, the minimum CEDIT rate that a county can impose is 0.1%. If Clark County chooses to impose the minimum rate in order to cover the income tax grant provided for in this bill, projected annual collections could total approximately \$1,329,276 (the provisions of this bill would not limit Clark County from using CEDIT revenues in accordance with current law). This estimate is based on Clark County's 1999 projected adjusted gross income of \$1,329,275,800. CEDIT revenue which is not allocated to the income tax grant would be distributed to other taxing units for CEDIT purposes dependent upon Clark County's decision at the time of CEDIT adoption.

Research & development abatement: In addition to the types of property that may currently qualify for

abatements, this bill would allow abatements for “new research and development equipment”. The equipment could consist of laboratory equipment, R&D equipment, computers, telecommunications equipment, or testing equipment. The equipment must be used in an R&D facility that is used exclusively for R&D of new products, new uses of existing products, or the improvement or testing of new products. Facilities used for efficiency surveys, management studies, consumer and economic surveys, advertising or promotion, and research on literacy or history projects would not qualify for an abatement under this provision.

If there is an increase in development because of this proposal, the new property would, at some point, be placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the abatement, an increase in abatements (ERAs) could also cause a delay of the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls.

Tax Abatements: Under current law, in Marion County, the Metropolitan Development Commission acts as the designating body that controls the granting of abatements. This bill would change Marion County’s designating body to the City-County Council. The Council would be allowed to consider the recommendation of the Metropolitan Development Commission.

The bill would also limit the total property tax abatement deductions to one-third of the residential assessed valuation for residentially distressed areas in Marion County’s Center Township. This provision could cause abatements to be denied if the abatement level reaches the limit. If abatements are denied and the investment is still made then the additional assessed valuation would immediately cause a reduction in the tax rate and a shift of the tax burden from all other taxpayers to the taxpayer making the investment. (With an abatement, the shift is delayed or phased in until the abatement expires). Conversely, if the investment is not made, then the delayed shift to the new taxpayer would not materialize.

Tax Increment Financing: According to the bill, tax increment financing (TIF) allocation provisions established after June 30, 1999 would expire within 30 years. TIF allocation provisions established before July 1, 1999, would expire by the time that all bonds outstanding on July 1, 1999 are scheduled to be retired. When the TIF allocation expires, the tiffed property will be made a part of the tax base. This will cause the taxes that are paid on the tiffed assessed value to be used to reduce the tax burden of all taxpayers. Levies for local cumulative funds, including school Capital Projects Funds, would increase by the amount of tiffed taxes attributable to those funds.

State Agencies Affected: State Board of Tax Commissioners; Department of Commerce; Department of Revenue; Indiana Development Finance Authority.

Local Agencies Affected: County auditors; Local designating bodies; Counties; Municipalities.

Information Sources: Department of Revenue; Diana Hamilton, Indiana Development Finance Authority.